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AGRICULTURE AND THE WORLD SHIPPING SITUATION

Problems involving the adequacy of ocean-shipping facilities and the cost of ocean shipping arising out of the European war have a broad significance for American industry as a whole, and especially for agriculture. War reduces the amount of available shipping facilities at the same time that it increases both the demand for and the cost of operating ocean vessels.

The strain that the World War of 1914-18 placed upon ships, men, and materials tended to make North America the chief source of supply for wheat for Europe and placed on the farmers of the American continent the burden of producing a substantial part of Europe's wheat requirements.

Conditions are somewhat different today compared with 1914, however, particularly insofar as the world supply of ship tonnage is concerned. According to Lloyds Register of Shipping, the gross tonnage of the world merchant marine, exclusive of sail boats, has increased 50 percent. When an allowance is made for higher averages of speed of about 20 percent, war transport facilities appear to be about 80 percent greater now than in 1914. As far as the American merchant fleet is concerned, although it is old and slow, it carried about 25 percent of the water-borne exports of the United States in the calendar year 1938 compared with 10 percent in 1914.

United States Tonnage Trebled

Most of the increase in tonnage has taken place in countries that are now neutral. British Empire tonnage, in vessels of 100 tons and upward, is about the same as it was 25 years ago, or 21 million gross tons, and in the same category, German tonnage has declined from 5.5 millions to 4.5 millions. But Italian tonnage of this category has more than doubled in this period to become 3.4 millions, Japan's tonnage has gone up from 1.7 millions to 5.6 millions, and United States sea-going tonnage has more than trebled.



Counting the world's ships of all sizes, materials, and types of propulsion there were, in 1914, nearly 31,000 vessels of about 49,000,000 gross tons as compared with 1939 figures of slightly more than 31,000 vessels and nearly 69,500,000 gross tons. Of steam and motor tonnage there were in the respective years about 45,000,000 and 62,000,000, the approximate numbers of vessels being respectively 23,000 and 27,500. But in considering transoceanic freight and passenger services we are justified in confining our comparisons to vessels of 2,000 tons and upward, the picture becoming clearer too if we also eliminate special types of vessels, such as tankers, cable ships, car and passenger ferries, and training ships. The world's tanker fleet increased from about 1,500,000 tons in 1914 to about 11,000,000 tons in 1939. With the tankers and other special types left out, we find that the six principal maritime countries (British Empire, Germany, France, Japan, Italy, and the United States) had ships of 2,000 tons and upward normally employed in the carriage of goods and passengers in international trade as follows:

	<u>Number of vessels</u>		<u>Gross Tons</u>	
	1914	1939 (Jan. 1)	1914	1939 (Jan.1)
United States	93	335	547,000	2,178,000
British Empire	3,556	2,144	16,258,000	13,338,000
France	327	377	1,504,000	2,126,000
Germany	786	538	4,107,000	3,135,000
Italy	300	429	1,148,000	2,512,000
Japan	336	780	1,291,000	3,870,000
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Total	5,398	4,603	24,855,000	27,159,000

On the basis of ship numbers and gross tonnage, the United States ranks fifth in 1939 whereas it was sixth in 1914. In ships 10 years or less in age this country ranks fifth but it takes last place in vessels with speed of 12 knots and upward.

In addition to these vessels, the United States on September 1, 1939, had other iron and steel steam or motor vessels of 2,000 tons and upward as follows:

	<u>Number of vessels</u>	<u>Gross tons</u>
Domestic trade	493	2,356,000
Tankers	365	2,678,000
Government-owned (inactive)	120	776,000
Total - oceangoing	978	5,810,000
Great Lakes fleet	410	2,260,000
Grand total	1,388	8,070,000



## Our Ancient Marine

Under the ordinary conditions of competitive world shipping the age of vessels is important. Therefore, and for the bearing it has on the question of obsolescence, it is well to mention that about 84 percent of all the American vessels referred to will reach the age of 20 years or more by 1942. Of the 326 American vessels of 2,150,000 gross tons in foreign service on September 1, 1939, many would be replaced under the building program which, according to the orders placed on or before October 10, had risen to 129 vessels of more than 1,000,000 tons. The whole program calls for 500 new ships in 10 years. The available figures indicate that during the coming years obsolescence will be running faster than the replacement program. But our present concern is with the immediate situation.

An immediate important effect of the war was the withdrawal of Germany's merchant fleet from the ocean trade routes. Otherwise, speaking generally, the effects on scheduled freight-liner services to and from the United States were by no means drastic until Congress enacted the neutrality legislation. That, of course, was a deliberate action, intended to withdraw some 92 American liners from their regular operations to or through the combat area proclaimed by the President. The operators of those vessels may or may not charter foreign ships to resume the schedules thus interrupted. One line at least has chartered such ships already. If the others do not it is probable that foreign ships will be brought into the service by other operators. In the case of the belligerent countries, it is for them to provide the "carry" as well as the "cash" for what they buy. In the case of the neutral countries, such as Belgium, Holland, Denmark and the Baltic countries, it is definite that our trade with them depends now on foreign-flag ships at rates high enough to attract the ships into this apparently hazardous service.

## More Ships Than Cargoes

This combat-area shipping situation is evidently one in which the law of supply and demand will rule. The demand is great and the supply is now limited by the prohibition against American flag vessels. Most of the inconvenience to American shippers caused by the war to date has been in the case of shipments to or from European countries. The neutrality legislation, by limiting the supply of shipping for a part of Europe, increases the potential supply for the rest of Europe and the whole world. This comment is based on the assumption that the 92 ships withdrawn from the combat areas will seek employment elsewhere.

At any rate, leaving the combat area out of the picture, the problem now confronting the United States is how to find cargoes for its idle ships rather than how to find ships for its cargoes. This is largely due to the fact that there has been comparatively little interruption of liner services on trade routes not affected by the neutrality legislation. Even the British lines seem to be maintaining their customary services between this country and various parts of the world. They did withdraw several ships between our North Atlantic coast and the east coast of South America,





some of which they afterwards replaced. But, even so, nothing has indicated that the services available are not adequate to accommodate our tonnage to and from South America.

### Neutrality Act Affects National Economy

The full effect on the national economy of the approval of the Neutrality Act of 1939 has not been felt as yet and it probably will be some time before all the effects can be accurately determined. Despite the many uncertainties created in the present situation by this legislation it is possible to arrive at some fairly accurate estimates of its probable effects on the economy. The Maritime Commission currently estimates that the new Neutrality Act will result in the withdrawal of 92 American vessels, aggregating 607,000 tons, from our regular foreign services and the abandonment of 8 foreign-trade routes on which our government has invested \$195,061,000. The vessels involved represent an original investment of \$203,000,000.

The Commission has further estimated that gross revenues amounting to \$52,500,000 annually will be lost to the American merchant marine as a result of this legislation. Cost of maintaining in lay-up, depreciation charges, amortization and interests on these 92 vessels will amount to about \$10,000,000 annually. Vessel expenses of ships withdrawn (and which almost entirely would be spent abroad, according to the Maritime Commission, instead of being spent in the United States if foreign ships take their places) will amount to \$20,600,000 annually. In addition to these expenses, a total of some \$13,000,000 for fuel and stevedoring would be lost to American business and labor if no foreign ships are available for replacement. It is estimated that about 6,000 seamen will be deprived of employment and an annual payroll of \$4,200,000 for office employees on shore will be released.

### War Brings Higher Rates

It ought to be added in regard to both ship tonnage and ocean freight rates, that it is too early to determine what will be the full effect of withdrawing American-flag vessels from the combat area. Much shifting of the scenery will take place before the new stage is completely set. But, as this transition depends primarily on how foreign shipowners are willing to employ their ships and on what terms, there is not very much the Americans can do to hasten the outcome. In the meantime, it is not likely that American cargoes will lack for vessel space to destinations outside of the prohibited combat area. The fact that so many American ships are waiting to find profitable employment will be a factor bearing on the rates outside of the combat area. But this factor might be offset if many foreign ships move into the combat area from other trade routes now served by them. It would be idle to prophesy at this time concerning the future rates. The war caused increases in vessel expenses and many rates were increased.



What has already occurred can be readily illustrated in the case of cotton by taking the scheduled liner rate from our Gulf ports to Liverpool. This went up from 50 cents to \$1.00 per 100 pounds. In the case of wheat in cargo lots the nominal increase via British tramp steamers was from 3d. 3s. to 4d. 9s. per quarter (480 pounds) from Gulf ports to Liverpool. Actually, no movement at this new rate was reported. For wheat cargoes from the Gulf to Antwerp and Rotterdam neutral foreign tramp vessels have been asking 7s. per quarter. Under ordinary conditions the rate for this service would be no more than to Liverpool. In addition to changes in ocean freight rates there have been wide fluctuations in the cost of war risk insurance as shown by the following tabulation:

War Risk Insurance Cost in cents per 100 pounds on cotton from  
U. S. Gulf ports to Liverpool

<u>Date</u>	<u>Cents</u> <del>Dollars</del>
August 16, 1939	2.47
" 23, "	2.43
" 30, "	2.38
Sept. 6, "	47.70
" 13, "	84.22
" 20, "	24.20
" 27, "	23.89
Oct. 4, "	17.85
" 11, "	16.88
" 18, "	17.67
" 25, "	17.62
Nov. 1, "	17.56
" 8, "	18.32
" 15, "	18.13

Import Controls Affect Farm Market

The import controls that have been established in the United Kingdom and France since the outbreak of war are likewise of considerable significance insofar as they affect both shipping and agriculture. The principal aim is to limit imports, wherever practicable, to essential commodities and war equipment, and to restrict entry of luxury goods or articles of secondary importance. With regard to the United Kingdom, import licenses are issued freely if the commodities under consideration are regarded by the import licensing department of the Board of Trade as necessary for military or civil defense purposes. Priority of shipping space in relation to urgent requirements, particularly with respect to overseas shipments to the United Kingdom, is an important consideration.

Among agricultural products on the British list requiring an import license are certain canned fruits, canned vegetables other than tomatoes, poultry and meat pastes, sausages (canned or otherwise preserved), hops, and dried vegetables (other than peas, beans, and lentils). With regard to France, all imports require an official certificate establishing that delivery of the requisite foreign exchange has been authorized by the Office of Foreign Exchange or that the imports in question require no settlement in foreign exchange. France is far more self-sufficient agricul-



turally than the other two belligerents and very little appears to have been done thus far toward actual assumption of government control over French agriculture, although such control is authorized under existing decrees.

Germany has exercised rigid control of all imports in recent years, particularly since the establishment of Dr. Schacht's "New Plan" of 1934 and the Four Year Plan established in 1936, which placed the country on a "military economy" basis. Consequently, the present war has necessitated no change in the German import system.

#### Contraband and Blockade

In addition to the various wartime controls, according to the Foreign Agricultural Relations of the Department of Agriculture, that are being exercised by belligerents in the present war, a most important control is that of seizure of products in ocean shipping designated as contraband. Foodstuffs and most other agricultural products are classed by the three belligerents as "conditional" contraband - that is, products susceptible of use in peace or war and destined for use of the armed forces of the enemy.

The British and French conditional-contraband lists are identical, the specification being "all kinds of food, foodstuffs, feed, forage, and clothing, and articles and materials used in their production." The German specification is somewhat different in that it includes tobacco, the text in translation reading "foodstuffs (including live animals), beverages and tobacco and the like, fodder and clothing; articles and materials used for their preparation or manufacture." It is understood, however, that the United States Department of State is discussing the matter of leaf tobacco with the German Government to the end that tobacco be removed from the German contraband list.

Almost at the outset of the present war, German merchant shipping was swept from the high seas and an Allied blockade was instituted against Germany. On the other hand, German submarines have taken a heavy toll of Allied and neutral shipping. During the first 6 weeks of the war, Allied and neutral merchant vessels, amounting to around 300,000 gross tonnage, were sunk by Germany; and during the same period approximately 338,000 tons of contraband goods destined for Germany were seized, including petroleum products, iron ore, manganese, phosphates, aluminum ore, copra, and oilseeds, according to an announcement by the British Contraband Control, which operates under the Ministry of Economic Warfare.

By way of comparison, it may be pointed out that during the first month of the unrestricted German submarine campaign launched on February 1, 1917, 468,000 gross tons of merchant shipping were sunk, 511,000 tons in March, and 840,000 tons in April 1917, the peak month of the campaign. On the other hand, Germany's large-scale use of bombing planes to attack merchant shipping might greatly alter the present picture. At all events, the Allied blockade against Germany and the latter's activities in combating the blockade's effectiveness will probably again be a determining factor in the outcome of the present war.

